

HOUSE FINANCE COMMITTEE  
April 12, 2021  
1:33 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Kelly Merrick, Co-Chair  
Representative Dan Ortiz, Vice-Chair  
Representative Ben Carpenter  
Representative Bryce Edgmon  
Representative DeLena Johnson  
Representative Andy Josephson  
Representative Bart LeBon  
Representative Sara Rasmussen via teleconference  
Representative Steve Thompson  
Representative Adam Wool

MEMBERS ABSENT

NONE

PRESENT VIA TELECONFERENCE

Sarah Needler, Director of Research, the Council of State Governments; Christina Gordley, Senior Policy Analyst, The Council of State Governments.

SUMMARY

HB 69        APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 69 was HEARD and HELD in committee for further consideration.

HB 71        APPROP: MENTAL HEALTH BUDGET

HB 71 was HEARD and HELD in committee for further consideration.

PRESENTATION: AMERICAN RESCUE PLAN ACT OF 2021 FUNDING BY  
COUNCIL OF STATE GOVERNMENTS

Co-Chair Foster reviewed the agenda for the meeting.

#hb69

#hb71

HOUSE BILL NO. 69

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; making reappropriations; making supplemental appropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HOUSE BILL NO. 71

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; making supplemental appropriations; and providing for an effective date."

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^PRESENTATION: AMERICAN RESCUE PLAN (ARP) OVERVIEW BY  
COUNCIL OF STATE GOVERNMENTS

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Co-Chair Foster indicated the meeting was the third on the topic of ARP funding. He thanked the presenters for being available. He indicated Representative Wool had joined the meeting.

SARAH NEEDLER, DIRECTOR OF RESEARCH, THE COUNCIL OF STATE GOVERNMENTS (via teleconference), introduced herself and provided a brief background. The Council of State Governments (CSG) was a non-partisan membership organization that represented state governments. The organization primarily worked with legislators, legislative staff, governor staff, and executive cabinets to promote excellence in state government through policy research and

by convening its members to share ideas. As the director of research, she ensured that that the entity's policy analysis had technical assistance and was evidence informed. She was before the committee to share the research CSG conducted on federal funding for the state. She deferred to Christina to introduce herself.

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CHRISTINA GORDLEY, SENIOR POLICY ANALYST, THE COUNCIL OF STATE GOVERNMENTS (via teleconference), introduced herself. In addition to the fiscal and budgetary team she was a member of the workforce development and disability employment policy team. She noted she had enjoyed working with the Alaska Work Matters Task Force that was led by Duane Mayes and Kristin Vandagriff. Prior to joining CSG she worked as a policy and budget analyst in the Kentucky Governor's Office for over 15 years.

Ms. Needler introduced the PowerPoint presentation: "American Rescue Plan (ARP) Overview." She was asked to present on the American Rescue Plan (ARP) and funds going to Alaska as part of the plan. She was aware that in the prior week the committee had heard from the Office of Management and Budget (OMB) and the Legislative Finance Division (LFD) who did an excellent job of sharing the details of the funding breakdown of the ARP. From her experience working with all 50 states and U.S. territories, she could report that Alaska was ahead of several states in preparing for the receipt and utilization of the funds coming to the state as part of the ARP. Even though many questions remained about the details of the ARP as the state was awaiting further guidance, she would focus the presentation on what she knew so far.

Ms. Needler reviewed the presentation overview on slide 2. She would share about the impact of Covid-19. She would provide an overview of the ARP and talk a bit about the State and Local Fiscal Recovery Funds. She would also talk about the Elementary and Secondary School emergency Relief (ESSER) Fund. Kristina would share some of the approaches to the ARP fund utilization from other states as well as lessons learned from previous federal funding to states.

Ms. Needler turned to slide 3 to discuss the impact of the COVID-19 pandemic on state government. She reported that CSG had conducted significant analysis of the impact of

COVID-19 on all 50 states along with how state had responded to the pandemic. In one of the analyses the council looked at the fiscal risk and the fiscal resiliency of all 50 states. The council found that Alaska had a medium level of fiscal risk and a high level of fiscal resiliency. The council wanted to take the opportunity to commend Alaska for the high level of fiscal resiliency which had been apparent in Alaska's ability to handle the fiscal impact of Covid-19.

Ms. Needler continued that furthermore CSG had also conducted analyses of responses to the pandemic including vaccination rate. In the council's research on vaccine dissemination with Covid, it found that Alaska had responded very quickly and efficiently by administering Covid-19 vaccinations to its population. As of April 9, 2021, over 25 percent of Alaska's total population had received at least one dose of the COVID-19 vaccine. The council also found that Alaska had both online scheduling tools as well as a hotline and that Alaska was the best performing state in terms of percentages of vaccines received that were administered. All of the information was published in a report which she was happy to share with members.

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Ms. Needler moved to slide 4: "The American Rescue Plan (ARP)." She indicated that as members heard from the presentations in the previous week from OMB and LFD ARP funds would be disbursed to Alaska through several allocations. Some of the funds would require a state appropriation and some would not. Slide 4 showed how the funds were divided. In the presentation she would focus on the four largest funds requiring state appropriation. The four funds included the state fiscal recovery Fund, the local fiscal recovery fund, the capital projects fund, and funds going to Department of Education and Early Development. She reported that CSG had conducted some analyses on these elements so far and would continue to conduct analyses on other parts of the plan which she would review in the presentation.

Ms. Needler turned to slide 5 to discuss state and local fiscal recovery funds. It was estimated that Alaska would see approximately \$1.36 billion total for the state and local fiscal recovery fund plus capital projects. A little

over \$1 billion of the funds would go to the State of Alaska. Approximately \$45 million would be directly allocated to Anchorage and about \$43.5 million would go to all other cities throughout the state. She relayed that approximately \$141.8 million would be allocated directly to boroughs and census areas and \$112.2 million would go to the State of Alaska for the capital projects fund. She added that the treasury would establish a process for applying for capital project fund grants by May 10th. These funds would be available for critical capital projects that directly enabled work, education, and health monitoring including remote options in response to the Covid-19 public health crisis. She noted that although it was not included on the slide, there was an additional \$400 million that would also be directly allocated to tribes - each would receive \$1.7 million.

Representative Wool asked Ms. Needler to define the term, "other non-counties." Ms. Needler asked if Representative Wool was referring to the \$141 million.

Representative Wool clarified the figure of \$43.5 million. Ms. Needler replied that the funds would be given to other cities in the state.

Co-Chair Foster noted that Representative Rasmussen was online and listening in.

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Ms. Needler continued to slide 6 to review the usage of state and local fiscal recovery funds. She pointed out that the bill provided limited direction on what the expenditures would be eligible for as part of the state and local fiscal recovery funds. It did allow for the use of the funds for a few specific things outlined on the slide. The funds could be utilized to respond to public health emergencies with respect to Covid-19 or its negative economic impact including assistance to households, small businesses, or non-profits. It could also be used to aid impacted industries such as tourism, travel, and hospitality.

Ms. Needler continued that the funds could also be utilized to respond to workers performing essential work during the Covid-19 public health emergency by providing premium pay to eligible workers who were performing essential work or

by providing grants to eligible employers who had eligible workers to perform essential work. The funds could also be used to provide government services to the extent of the reduction in revenue. It could be online property or income tax due to the public health emergency relative to the revenues collected in the most recent fiscal year prior to the emergency. The funds could also be used for making necessary investments in water, sewer, or broadband infrastructure.

Vice-Chair Ortiz asked if there was a national definition of "Essential Workers." He asked for clarification. Ms. Needler indicated there were some guidance related to his question. She would have to get back to the committee. She asked Kristina to find the information while she continued with the presentation.

Representative LeBon thought slide 6 defined the usage for state and local governments. He wondered if there were any sidebars for the use of funds for tribes. Ms. Needler had not looked at the information yet but could get it for the committee.

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Ms. Needler advanced to slide 7 regarding the restrictions associated with state and local fiscal recovery funds. There were restrictions on how the funds could be utilized. She highlighted states were not allowed to use funds to either directly or indirectly offset a reduction in the net tax revenue that resulted from a change in law, regulation, or administrative interpretation during the covered period that reduced any tax. No funds were to be deposited into any pension fund. There was also a limitation placed on the premium pay for eligible workers. It was limited to \$25,000 for any single eligible worker receiving premium pay.

Co-Chair Foster pointed out that sidebars for spending by the tribes would be addressed in a presentation by the Alaska Federation of Natives on tribal ARP funding on Wednesday, April 14, 2021, at 1:30 pm for the House Finance Committee.

Representative Edgmon asked if the information the presenter was providing was what she knew from the legislation itself. He wondered if he was accurate. Ms. Needler responded, "That's correct."

Representative Edgmon had been told to expect guidelines from the U.S. Treasury Department on or about May 10, 2021. He thought what was being presented in the current meeting was from a high-level view that he thought engendered more questions than answers. He asked what Ms. Needler's confidence level was that the state would receive guidelines on May 10th that might be able to adequately answer many of the questions the state had. Ms. Needler replied that CSG had been in touch with the U.S. Treasury as well as other member associations that had submitted several questions to the treasury to get further guidance. She was hopeful that many of the questions would get answered once the guidance was released on May 10th.

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Ms. Needler indicated that the slide touched on a few points regarding the administration of the federal funds. The funds would be distributed with a spending deadline of December 31, 2024. The treasury was required to pay the first installment by May 10, 2021. The second would follow at least 12 months after the first disbursement. She noted that the ARP had allocated about \$77 million for the Government Accountability Office and \$40 million for the Pandemic Response and Accountability Committee to promote transparency, accountability, and oversight of the plan.

Representative LeBon had a question about the 2 payment installments. He wondered if the installments were of equal value. Ms. Needler would have to get back to the committee. Representative LeBon commented that it would be important information to be aware of. Co-Chair Foster shared that his understanding was that the funds could be released in 2 tranches depending on what a state's unemployment rate.

Vice-Chair Ortiz asked whether the third bullet on slide 8 was a definitive statement regarding two payments. Ms. Needler confirmed that the bill stated that the monies would arrive in two payments.

Representative Edgmon asked what was known about states having to apply for the funds. Ms. Needler did not know any other details than she was currently presenting.

Ms. Needler returned to the definition of an essential worker. In the bill essential workers were defined a

workers needed to maintain continuity of operations of essential critical infrastructure sectors and additional sectors as each chief executive officer of a metropolitan city, non-entitlement unit of local government or county may designate as critical to protect the health and wellbeing of the residents of their metropolitan city non-entitlement unit of local government or county. She commented that the definition of an essential worker remained unclear. She thought perhaps the U.S. Treasury would provide further guidance.

Ms. Needler advanced to slide 9: "State Authority to Utilize Funds." much of the information on the slide had been presented in the prior week. In terms of the utilization of the fund, it remained unclear how the funds could be used. However, there was some guidance in the bill on how the funding could be distributed to local governments. Some of that information was on the slide. She noted that if state payments were not paid within 120 days, any unpaid amounts would become state debt owed to the government and would come out of the state recovery fund distribution.

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Ms. Needler discussed reporting requirements and certification and recoupment on slide 10. There were a few reporting requirements related to the AFP Act. States were required to report how funds were used and how tax revenue was modified during the time that funds were spent during the covered period. The period began March 3, 2021 and ended on the last day of the fiscal year. A state or local government had either spent or returned all funds to the U.S. Treasury. If a state, county, or municipality did not comply with any provisions of the ARP, it would be required to repay the U.S. Treasury and equal to the funds used in violation. She concluded the section of the presentation of the state and local recovery fund. She would transition to the subject of education. She asked if members had any questions.

Representative Wool stated that there was a significant amount of discussion about tax revenues being modified. He thought there was a presumption that if governments were to lower their taxes resulting in less revenues, revenues could be made up with federal dollars. However, Alaska did not have a statewide tax, and would have trouble



implementing the idea. He suggested raising the motor fuel tax. He thought the idea was counter to what the federal government intended. He asked her to comment. Ms. Needler replied that she could not provide a firm answer. There were several questions regarding the federal funding, particularly around tax rates. She indicated CGS had submitted questions to the U.S. Treasury and was awaiting clarification through the guidance that was expected to be released soon.

Representative Wool asked if she agreed that much of the language was being used to prevent taxes being lowered and subsequently back-filled with federal funding. He asked if his statement was fair. Ms. Needler responded, "Yes." in the affirmative.

Ms. Needler would talk about education funding beginning on slide 11: "The Elementary and Secondary School Emergency Relief (ESSER) Fund." She explained that the state, local, and fiscal recovery funding along with the capital projects funding was the largest source of funding going to the government for state appropriation. She also noted there was additional funding that was allocated to state agencies. The largest portion of that funding would be going to the Department of Education and Early development (DEED). She would provide an overview of that funding.

Ms. Needler relayed that there was a total of \$358 million that would be going to DEED in FY 21. The largest chunk of the funding, 90 percent or \$322.8 million, would be allocated for Alaska local education agencies. The remaining \$35 million would be allocated to DEED. The amount would need to be split out for specific activities assigned in the ARP. The distribution was shown on slide 11. She reported that approximately 5 percent or \$18 million would need to be allocated to address learning costs as a result of the pandemic. About 1 percent or \$3.6 million would be directed to summer enrichment activities. another 1 percent or \$3.6 million would be dedicated to after school programs. She continued that 2.5 percent or \$9 million would be used for other activities not defined in the bill. An additional .5 percent or \$1.8 million would be dedicated to administration activities.

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Representative Wool asked about the 90 percent going out to the local education agencies. He had heard that the distribution was based on the population of Title 1 students in a district. He asked if she could verify the information. Ms. Needler would have to get back to the committee.

Ms. Needler reviewed the requirements associated with the ESSER Fund on slide 12. One of the requirements was that states maintain support for elementary education in FY 22 and FY 23 at least to the proportional level of support for elementary and secondary education relative to overall spending. She clarified that it was based on the average for FY 17, FY 18, and FY 19. The requirements also specified that any funds a state did not award within 1 year of receipt would have to be returned to the secretary for reallocation. She turned the presentation over to Kristina.

Representative LeBon referred to slide 12. He mentioned the education component citing elementary and secondary education and average spending from FY 17 through FY 19. He wondered how higher education would be treated, specifically the University of Alaska. Ms. Needler responded that the ESSER funding was only dedicated for elementary and secondary education. There was separate funding for higher education in the bill. However, she had not included it in the presentation.

Representative Edgmon suggested that the fiscal years on slide 12 applied to individual states' fiscal years and not the federal fiscal year. [Ms. Needler nodded.]

Ms. Gordley continued to slide 13: "Approaches to ARP Fund Utilization." She would talk about different approaches to ARP fund utilization, some trends CGS had seen that states were looking at, and approaches seen in the past.

Ms. Gordley relayed that the first approach was investment in infrastructure. It was not as exciting as pilot projects or handing out money directly to people. However, the basics of water, sewer, power, and data systems were vital to government. Due to budgetary constraints, states often deferred maintenance. The federal stimulus money would provide the opportunity to remove those band aids of piecemeal repairs through the years a fully look at the design for a wholistic approach. Released today, the White House

provided individual report cards for states and their infrastructure as part of the background for the proposed American Jobs Plan. She indicated a report for the need of road and bridges, public transportation, water infrastructure, and broadband among other items of infrastructure.

Ms. Gordley continued that another item that CSG saw trending with states was workforce development. It was an opportunity for states to examine the future of their workforce, the new demands for job seekers, and how the states could elevate and upscale their constituents. Currently, there was a great push for apprenticeships and a focus on green jobs by the U.S. Department of Labor. Alaska could align itself for those funds and opportunities. She added that as many state agencies and businesses were forced into remote work, states could take the opportunity to examine what worked in telework and what did not to enhance the appeal of public sector jobs and to increase efficiency in job satisfaction.

Ms. Gordley moved to the topic of unemployment insurance. She reported that as states experienced record-high unemployment, there was a nationwide effect of deferred maintenance on data systems and years of budget cuts towards the agencies that administered the unemployment programs. It was an opportunity to make the necessary investments and build up the programs. States were also faced with loans that were taken to pay for unemployment benefits. An area of consideration that several states were looking at was how best to utilize its funds. She posed the question whether states should pay back the loans immediately or space out the repayment.

Ms. Gordley review some state examples. Every state, thus far, was approaching the use of the ARP funding differently. Recently, Kentucky had a short legislative session because their usual budget session would be held in the following year. However, they had to pass a 1-year budget which did not include any appropriation for the stimulus funds. Instead, they used other bills to appropriate the funds through a free conference committee. They were able to take a bipartisan approach to allocate the ARP funding on priority items such as the repayment of the unemployment insurance loan, high speed internet infrastructure, K-12 school construction, vocational school

renovations, rural hospitals, and upgrades to water and sewer.

Ms. Gordley presented another state example. Utah was a good place with steady revenue and low unemployment. The legislature passed the annual budget but did not include any ARP funding, as there were too many unknowns. A special session would have to be held after the May 10th federal guidelines were released. New York was another state that recently passed their budget. Instead of handling the ARP separately, they wove the funds directly into their biannual budget. They were implementing some pilot programs that were targeted towards the Covid-19 response such as returning to work, the tourism industry, and one-time programing.

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Vice-Chair Ortiz asked about investing in infrastructure. He had asked a previous presenter about spending the ARP funding on deferred maintenance. Although that presenter did not know specifically about deferred maintenance, they indicated spending had to be tied to COVID. He wondered if her understanding was that the ARP funding did not need to be tied to Covid impacts. Ms. Gordley responded that that was her understanding. She would double check and get back to the committee.

Representative Edgmon thought slide 13 was a departure from the earlier slides in that there seemed to be a direct tie to public health emergencies and requirements for use similar to the CARES Act funding stipulations. However, the current slide listed different categories and alternative ways to use the funding. He asked if he was accurate in his assessment that the first 12 slides of the presentation and the emphasis on public health emergencies dealt more with the state fiscal recovery plan and the local fiscal recovery plans. Whereas the remaining portion of the presentation dealt with the capital projects fund which was \$112 million. He asked for clarification.

Ms. Gordley replied that Ms. Needler had been reporting more on the actual findings for the bill. Ms. Gordley had was taking a stance on what states had been doing. In the following slide she would be discussing things that had been done in the past, things to avoid, and things to consider.

Representative Edgmon asked if the presenters had reached the portion of the presentation dealing with the capital budget. Ms. Gordley indicated that she had not separated the money. Representative Edgmon asked about the capital project monies and whether the funding had to somehow tie into public health emergencies. Ms. Gordley invited Ms. Needler to comment.

Ms. Needler was hoping to get clarification through the U.S. Treasury's guidance of how and to what extent the funds needed to be linked to the pandemic.

Representative Edgmon was raising the issue because until the state received U.S. Treasury guidelines, it was very difficult for any state to appropriate the ARP funding because of a lack of specifics. He wanted the state to be able to use the money in a way such that it would not have to pay it back. He asked if he was correct.

Ms. Gordley replied that that there were several unknowns. She was reluctant to respond because after the passage of the CARES Act, states had asked for flexibility in the use of those funds. The CARES Act had several restrictions and many detailed line items. The U.S. Treasury provided significant flexibility without many rules. States were currently in a waiting period [regarding ARP guidelines] which was nearly as frustrating.

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Representative Edgmon heard that some state legislatures were already putting their budgets together prior to having the money or the guidelines around ARP funding. He opined that it was putting the cart ahead of the horse. He wondered why the State of Alaska was not doing the same. He asked if other states were doing so.

Ms. Gordley replied that the three states she had mentioned passed their budgets because of a constitutional deadline. A couple of legislatures were on opposite years of the normal budget cycle. They budgeted in even years. She suggested several states were using the information they knew to budget. However, there were several proposals in process at the legislative level using the ARP funding. She also reported several other states that were hesitating and waiting for further guidance.

Representative Wool asked how and why other states were able to produce their budgets without the federal guidelines. He wondered why some states were producing a budget and some were not. Ms. Gordley opined that much of it depended on where the state was going into the pandemic. If looking at the stability of the budget prior, a state might have to utilize the funds earlier than other states. Alaska had the Permanent Fund as a rainy-day fund, and Utah had a huge budget reserve fund similar to Alaska. Therefore, there was not as much of an urgency as with other states. Every state was approaching the issue differently.

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Ms. Gordley moved to slide 14 to discuss the lessons learned from previous federal stimulus funding. She suggested that when planning states should remember that the stimulus money was a one-time infusion of funds. In the budgeting world there was always a concern of making recurring expenditures funded with non-recurring revenue. Unfortunately, some states experienced this in the Great Recession and the stimulus funding from the American Recovery and Reinvestment Act of 2009. As states implemented programs to revitalize local economies and meet the needs of the states, they brought on full-time employees and added ongoing costs. Suddenly, in two years they experienced "the cliff," states were responsible for continuing those programs without adequate funding. States had to decide whether to continue the programs.

Ms. Gordley noted there was preparation for reporting requirements. She was certain the state budget office and the legislative finance committees were prepared after the CARES Act. The state would continue to monitor and report how it was handling the funding either with a task force or committees. Using the lessons from 2009, simple accounting functions set up in advance and careful thought beforehand would be helpful. She also recommended making sure any needed information could be pulled easily. She was aware of different reporting requirements which would require additional thought about how the state set up the applicable programs and accounting.

Ms. Gordley moved to the next bullet on slide 14 having to do with backfilling budgets versus investments in the

future. She suggested that if cuts had been implemented or if there were savings through attrition, it was easy to continue those efficiencies. That savings could be used for new programs or areas. However, there was a delicate balance in choosing what to backfill. It took until 2019 for states to return to pre-2008 employment levels and service levels because of the cuts made in 2008. It was easy to roll with efficiencies already in place, but something for states to continue considering. Similar to the public sector supports, she suggested thinking about ways state governments could provide those supporting functions to ensure they were available.

Ms. Gordley turned to slide 15: "Additional CSG Resources." She rereported that CSG had conducted the following analysis which she provided to members: ARP funding for employers and K-12 education, and an overview of the American Jobs Plan Proposal. In-progress analysis included analysis based on themes like industries, workers, infrastructure, housing, nutritional assistance, and information technology. She indicated that currently, based on policy shops and grant funded areas of research within CSG, they would explore the implications of ARP funding and opportunities to address items like disability employment, apprenticeships, civics, occupational licensure, food and nutrition, vaccine dissemination, and mental health. Soon there would be weekly updates on state ARP funds utilization and oversight. As CSG received information, they would be sending out summaries of federal guidance and any new federal funding bills.

Ms. Gordley turned to the contact slide at the end of the presentation. She indicated that additional information could be found on CSG's website.

Co-Chair Foster reported that the presentation was the third regarding the ARP funding attempting to shed light on the anticipated guidelines to be released in May 2021.

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Vice-Chair Ortiz asked about learning loss. He wondered if there would be certain assumptions made or whether documented learning loss would be required to expend funds. Ms. Gordley responded that it was not specified in the bill at present.

Representative Wool asked about maintenance of effort. Ms. Gordley had touched on the issue as it related to K-12. He had heard it was the aggregate of K-12 and higher education, and the maintenance of effort had to be met in a combined way in order to receive funding. He asked Ms. Needler to verify the claim.

Ms. Needler replied that she was uncertain, as CSG had only been looking at K-12. She indicated that from what she had seen for the K-12 funding, the maintenance of effort applied directly to the funds for elementary and secondary education. She thought the maintenance of effort would be applied separately. However, she was not certain. Representative Wool commented that it made more sense that K-12 and higher education would be looked at separately.

Co-Chair Foster thanked the presenters and relayed the agenda for the following meeting on Tuesday, April 13, 2021, at 9:00 a.m.

HB 69 was HEARD and HELD in committee for further consideration.

HB 71 was HEARD and HELD in committee for further consideration.

#  
ADJOURNMENT

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The meeting was adjourned at 2:27 p.m.